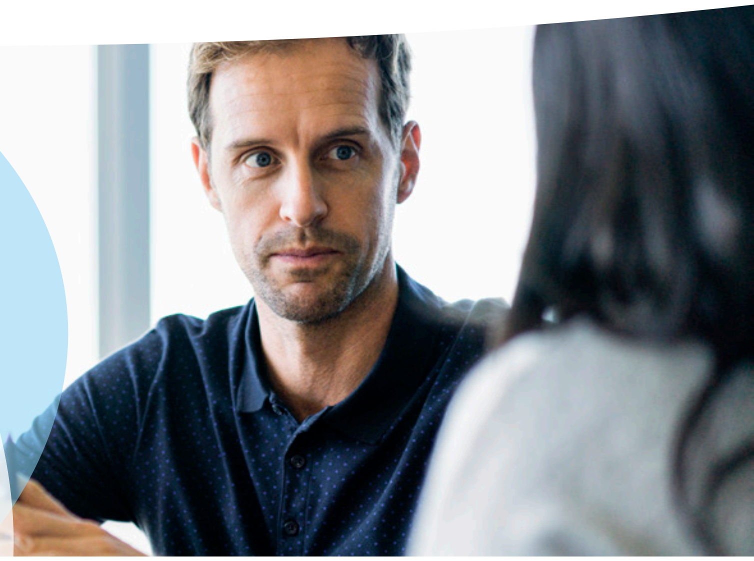


Newsletter

PerioDiC

The elements that you need to know

Whether you are a trustee running an occupational scheme, or you are a company offering a master trust or contract-based scheme (such as a Group Personal Pension), these newsletters help to keep you up-to-date with elements relevant to your defined contribution (DC) arrangement.

IN THIS NEWSLETTER

Trustee elements

Pension funds and social investment

In June, the Government published its final response to the Law Commission's report on pension funds and social investment. The DWP then ran a short consultation and published its response in September 2018, confirming the following regulatory changes.

From 1 October 2019:

- For schemes with 100 or more members, trustees will be required to update the Statement of Investment Principles (SIP) to set out:
    - how they take account of financially material considerations, including those arising from Environmental, Social and Governance (ESG) risks, including climate change
    - their policies in relation to the stewardship of investments
- Trustees required to prepare an annual chair's statement will be required to:
    - publish their SIP on a website so that it can be found and read by both scheme members and interested members of the public
    - inform scheme members of its availability via the annual benefit statement
- In relation to default investment arrangements, Trustees will be required to update the default SIP to set out:
    - how they take account of financially material considerations, including those arising from ESG risks, including climate change
    - their policies in relation to the stewardship of investments (schemes with 100 or more members only)

From 1 October 2020 and for schemes with 100 or more members, when trustees produce their annual report, they will be required to:

- prepare an implementation statement setting out how they have implemented their investment policies, and explaining and giving reasons for any change made to them
- include this implementation statement in the annual report
- ensure that the link included in the annual benefit statement sent to members also refers to this implementation statement

The proposed requirement to prepare a separate statement on members' views has been replaced with an optional policy on non-financial matters, deriving from members' ethical or other concerns.

> Trustees will need to understand to what extent the changes apply to their schemes, and what they need to do by when.

Chair's statement update

In June and September, The Pensions Regulator (TPR) updated its November 2017 guidance, giving greater clarity on its expectations for chair's statements with examples of good practice and common mistakes. Hand in hand with this, TPR announced that it would be rescinding a number of fines that it had applied for past non-compliant statements.

TPR expects greater narrative around how trustees have complied with the various DC governance standards. Trustees should have particular regard to the updated guidance when preparing their next chair's statement.

In addition, Trustees will be aware of the extra requirements for scheme years ending on or after 6 April 2018.

Cost and charges disclosure

In July, the Financial Conduct Authority (FCA) responded to recommendations made to it by the Institutional Disclosure Working Group (IDWG), set up to support consistent and standardised disclosure of costs and charges.

The IDWG made recommendations to the FCA on:

- templates for data collection and disclosure
- what arrangements need to be in place to ensure the templates are maintained
- how to encourage providers to offer information using the templates
- how to encourage more users to request information in this format from their providers

The FCA welcomed the recommendations and will continue to work with investors and industry in progressing these. Whilst the IDWG's focus was on defined benefit (DB) pensions, further developments in this area may help trustees of DC arrangements with obtaining information on costs and charges required for assessing value for members and reporting.

Administration governance

In July, the Pensions Administration Standards Association (PASA) published a Trustees Administration Governance Checklist. Also in July and recognising the increased risk to members of DC scheme from poor DC administration, PASA published its DC focussed guidance, looking at the key areas of data, decumulation, controls and processes, MI and transitions.

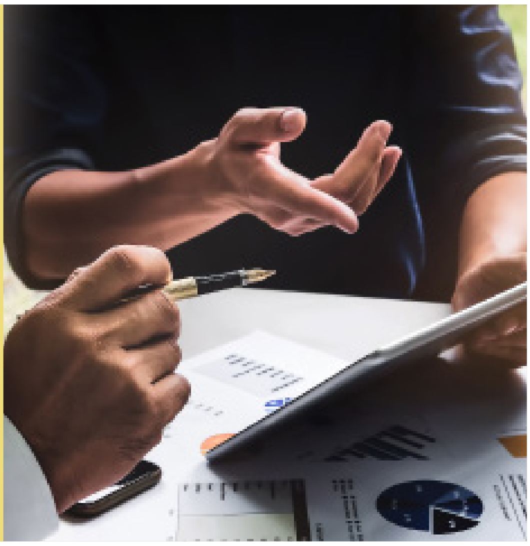
Trustees may wish to consider these documents when assessing governance over their administration services, whether these are provided in-house or by a third party.

Company Elements

Government to review tax relief

In June, spokeswoman for the DWP, Baroness Buscombe announced that the Government will examine the process for payment of pensions tax relief.

Whilst this announcement was made in response to concerns that low-paid workers in 'net pay' schemes are losing out by not receiving tax relief, it may re-open speculation that the Government could consider more radical reform of pension tax relief.



Other elements

Authorisation regime for master trusts

The authorisation and supervision regime for master trusts by TPR begins on 1 October 2018. Master trusts will have to provide evidence to TPR in five areas:

- fit and proper persons
- financial sustainability
- scheme funder
- systems and processes
- continuity strategy

Existing master trusts will have six months in which to apply for authorisation, failing which they must be wound up. To help prepare for authorisation, TPR provided a voluntary 'readiness review' process that master trusts could use to prepare for authorisation application. TPR received draft applications from 33 master trusts as part of this process.

Based on its latest update in September, TPR reported that it had identified 89 master trusts, of which three have wound up and 21 have decided not to apply for authorisation (so will need to be wound up). It is expected that some of the remaining 65 master trusts will decide to exit from the market in the coming months.

FCA's Retirement Outcomes Review

In June, the FCA published the final report on its Retirement Outcomes Review. The review aimed to assess how the market is evolving, to address any emerging issues that might cause consumer harm and to put the market on a good footing for the future.

The review concluded that the market was not working well in some areas, so the FCA launched a consultation on a package of remedies in such areas as the retirement 'wake up' pack, retirement risk warnings, annuity information and pre and post drawdown disclosures. We welcome any such changes that help to deliver better member outcomes.

Provider news

In July and as expected, Aegon completed the Part VII transfer of BlackRock's UK DC pension business following regulatory and court approvals.

Equitable Life, a major additional voluntary contribution (AVC) provider announced its proposals for closing its with-profits fund and transferring all of its business to Reliance Life. This will have significance for trustees and Local Government Pension Scheme (LGPS) administering authorities, who hold investments with Equitable Life, particularly where members' benefits are invested in the with-profits fund.

In August, the Phoenix Group announced the completion of its purchase of Standard Life Assurance Limited from Standard Life Aberdeen. As part of the deal, described as a strategic partnership, Standard Life Aberdeen now has a near 20% ownership of the Phoenix Group. Policies and contracts with Standard Life Assurance Limited will not change and will continue to operate under the Standard Life brand.

Brief summary from 29 October's Budget announcement:

- No changes to either pension tax relief or the Annual Allowance
- The expected annual uplift in the Lifetime Allowance – this will increase from £1.03m to £1.055m from April 2019
- Consultation this year on details for the Pensions Dashboard, to include State Pension information
- Consultation this year on allowing unit-linked pension funds to invest in patient capital assets, i.e. illiquid investments such as venture capital, startups and infrastructure
- Consultation next year on the function of the charge cap and whether the level of 0.75% is restricting use of performance fees
- Following prior consultation, the expected regulations to ban pensions cold calling

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Mark Futcher, Partner and Head of DC via the following:

mark.futcher@barnett-waddingham.co.uk 0333 11 11 222

www.barnett-waddingham.co.uk